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SUBJECT: TAIWAN'S PLANNED GOVERNMENT REORGANIZATION

REF: A. 2004 TAIPEI 02879

[B](#). 2002 TAIPEI 03912

[1](#)1. (SBU) Summary. Taiwan is undertaking a massive reorganization of its government. The plan is to reduce Taiwan's current 36 ministries down to 13 with 4 councils and 5 independent commissions over the next year. Major changes include consolidating the administration of state-owned enterprises from multiple agencies to one (the Ministry of Finance) and eliminating the Examination Yuan. Top officials are confident that the plan can be implemented quickly and smoothly. That confidence may be overly optimistic. End Summary.

Meeting/Background

[1](#)2. (U) On December 23, AIT Deputy Econ Chief met with Chairman of the Research, Development and Evaluation Commission (RDEC), Yeh Jiunn-rong, to follow up on press reports suggesting that new legislation to implement a major restructuring might occur within the current Legislative Yuan (LY) session, scheduled to recess on January 21. Until recently, it was unclear what the new government structure would look like. Interlocutors either did not have or were not willing to share draft plans with AIT. Yeh provided a general outline of the proposed reorganization. Also present at the meeting were RDEC Director Sung Yu-hsieh, AIT EconOFF and Econ Specialist.

History of Decision

[1](#)3. (SBU) Yeh said that 8 former Premiers had tried to push through similar reforms, but encountered major resistance due to special interests who were loathe to give up preferential treatment that had essentially become guaranteed under the single party KMT rule. Yeh informed AIT that the idea to try again was based on a consensus decision to reorganize the government made at an August 2001 cross-sectoral/all-party meeting called "Jing Fa Da Hui" (Economic Development Advisory Conference). Yeh insisted that the goal is to improve Taiwan's performance and was not one born out of partisan politics. (Comment. While the idea for the reorganization is not new, the current plan is. Premier Yu Shyi-kun initiated the idea and Minister Yeh has been in charge of its development and implementation. End Comment).

Justification for Reorganization

[1](#)4. (SBU) Yeh explained the goal of the reorganization is to simplify Taiwan's bureaucracy to make it more "user-friendly" and enhance the efficiency of Taiwan's government institutions. He said the hope is to empower the people through devolution and deregulation. A handout provided stated the reasons for the reorganizations were to:

- 1) offer quick and efficient services to the public through streamlining;
- 2) generate capacity-building to cope with new issues in a global era
- 3) reduce overlapping of administrative resources and to effectively control the scale of public spending;
- 4) clarify the roles and responsibilities of government organs to improve their functions and efficiency.

Basic Structure

[1](#)5. (U) Under the plan, the Executive Yuan (EY) would supervise all Ministries, make final decisions, remain headed by a premier and coordinate cross-ministerial affairs and policies. The plan also reduces the number of ministries/departments under the EY from 36 to 13. There would also be 4 councils and 5 independent regulatory commissions. The councils would have cross-ministry policy planning and coordination roles.

[1](#)6. (U) The thirteen ministries would be as follows:

- 1) the Ministry of Interior and Homeland Security
- 2) Ministry of Foreign and Expatriate Affairs
- 3) Ministry of National Defense and Veteran Affairs
- 4) Ministry of Finance

- 5) Ministry of Education and Sports
- 6) Ministry of Justice
- 7) Ministry of Economic and Trade Affairs
- 8) Ministry of Transportation and Public Construction
- 9) Ministry of Health and Social Security
- 10) Ministry of Agriculture
- 11) Ministry of Culture and Tourism
- 12) Ministry of Labor and Human Resources
- 13) Ministry of Environment and Resources

17. (U) The four councils would be as follows:

- 1) Council of National Development and Technology
- 2) Council of Mainland Affairs
- 3) Council of Indigenous People's Affairs
- 4) Council of Hakka Affairs

18. (SBU) While Yeh did not indicate what the five commissions would be, he did indicate that the commissions would be independent from both the ministries and councils in order to regulate them without bias. One current example of a Commission is the Financial Supervisory Commission (FSC) established on July 1 this year. It is the independent regulator of financial institutions. There is also an independent commission in the works in the form of the National Communications Commission (NCC), which the LY is currently considering to be the independent regulator of telecommunications firms. Under the current plan, the heads of the commissions would be picked for life rather than serving at the will of the President in hopes of keeping the commissions apolitical. Yeh noted that there is great reluctance to let the President appoint heads to the commissions, but insisted that he was working hard to resolve this.

19. (SBU) The plan also proposes to dismantle the Examination Yuan. Taiwan still operates under an exam-based civil service. In order to work for the federal government, individuals must pass rigorous exams. According to Yeh, this system has proved cumbersome and ineffective, often preventing the most qualified candidates from attaining jobs in the civil service. The plan specifically proposes to discuss the elimination of the Examination Yuan at a conference scheduled to discuss amending Taiwan's constitution in the summer of 2005. As the Examination Yuan is established under the constitution, its abolishment would require a constitutional amendment. The EY hopes the summer conference on the constitution will lead to such an amendment.

Mainland Affairs Council

10. (C) Part of the reorganization plan originally included merging the Mainland Affairs Council (MAC) into the Premier's office. RefTel A reports on how Premier Yu won President Chen Shui-bain's approval for such a merger by circumventing NSC objections to the proposal. RefTel also reports on the backlash the EY proposal evoked from the National Security Council (NSC) and MAC. As it turns out, MAC and the NSC have won their battle on this front. On Tuesday, January 4, the LY agreed that the MAC would not be merged with the EY and it would maintain its current independent cabinet status.

11. (SBU) To implement this decision, the LY has consequently decided not to establish a new Council for Maritime Affairs as called for in the original EY proposal. The original proposal limits the number of councils to four. In order for MAC to maintain its status, one of the other newly proposed councils needed to be eliminated. Apparently, the Maritime Affairs Council drew the short straw. In its stead, the EY plans to establish a ministerial-level task force on maritime affairs to handle important cross-ministerial maritime policy issues. That task force will likely be headed by a Minister Without Portfolio.

Ministry of Finance to Consolidate Financial Holdings

12. (SBU) News reports indicate that the Ministry of Finance (MOF) submitted a state-owned enterprise (SOE) management consolidation proposal to the Executive Yuan for approval on December 28. Apparently, MOF has proposed to first take over administration of SOEs, which have less than 50 percent government ownership and then to later also take over SOEs with public ownership greater than 50 percent. If approved, MOF would end up taking over 40 SOEs currently being administered under six other ministerial agencies.

13. (U) The only two SOEs that have not been specifically identified to move to MOF within a specific time-frame are Chunghwa Telecom and the public water Utility. The Ministry of Transportation has successfully made the case for maintaining supervisory control of Chunghwa Telecom for as long as it takes it to privatize due to the complexity of the privatization process. Once it is privatized, however, it too is slated to move to MOF control. The other exception is

Taiwan's public water utility. Under the reorganization proposal, it will move from the Ministry of Economic Affairs to the new Ministry of Natural Resources where it will stay as long as it remains public. Taiwan is undecided as to whether it will privatize its public water utility at any time.

14. (SBU) MOF is also proposing that it be given the authority to sell SOE equity shares and to appoint new board directors and major executives of SOEs. Premier Yu Shyi-kun has instructed the MOF to study the feasibility of setting up state-owned financial holding companies to centralize the ownership of all state-owned enterprises. AIT asked Yeh if the planned consolidation of all SOEs under MOF is a precursor to privatizing them all. Yeh said that, at this time, it was simply a plan to put one government agency in charge of all government property.

15. (SBU) Comment. Many ministries are strongly opposed to giving up their authority over SOEs currently under their supervision, particularly those SOEs that are profitable such as Taipower and the Chinese Petroleum Corporation (both currently under the Ministry of Economic Affairs). Consolidation of the SOEs under MOF would have little impact on their day-to-day operations and most SOEs face eventual privatization even under the current arrangement. It appears therefore that the issue is more turf, personnel, and perks than economics. Due to the resistance, the consolidation is highly controversial and is facing significant opposition in the LY. It could undermine successful LY passage of the entire reorganization package. End Comment.

Ministry of Economic and Trade Affairs

16. (SBU) Yeh gave a brief explanation about the reorganization of the Ministry of Economic Affairs (MOEA) into the Ministry of Economic and Trade Affairs (MOETA). He explained that the new ministry would put economic affairs under a single authority and that the MOETA would ensure that economic and trade affairs were implemented in accordance with WTO regulations. The MOETA would be responsible for: industries, commerce, trade investment, intellectual property, standards and inspection, energy, medium and small businesses, science-based industrial parks, and business start up counseling. Under the plan, in addition to MOEA losing control of the State Owned Enterprises (SOEs) including Taiwan Power, Taiwan Sugar and China Petroleum, the Board of Foreign Trade also would be downgraded from a Bureau to a Department and the Administration of the science parks would move from the National Science Council to the new MOETA.

Policy Planning Function

17. (SBU) Under the reorganization the government's three primary research, development and strategic planning councils, the Council on Economic Planning and Development (CEPD), the National Science Council (NSC) and the Research, Development and Evaluation Commission (RDEC) Council would all be incorporated into the Council for National Development and Technology. Currently, the three Councils are independent. CEPD provides policy guidance on Economic issues; NSC provides policy guidance on science issues and RDEC provides policy guidance on social issues. As the distinctions between these fields are often indistinct, the goal is to combine all three into one council to improve cross-sectoral policy planning.

Nuclear Commission

18. (SBU) While many of the current regulatory bodies would remain independent, the Atomic Energy Commission (AEC) would not. Under the new plan it would be placed under the Ministry of Environment and Natural Resources. Yeh claimed that putting nuclear regulatory agencies under Environment Protection Agencies was the wave of the future and that Taiwan's decision was based on the German model. (Comment. Taiwan, like Germany, has committed to a nuclear-free energy policy. Minister Yeh is in charge of both Taiwan's governmental reorganization and making Taiwan nuclear free. The decision to place AEC under the Environmental Ministry may be part of the overall plan to rid Taiwan of nuclear energy (see RefTel B). End Comment).

Status of Project

19. (SBU) The LY passed a "Central Government Agency Organizational Basis Law" committing to government reorganization in general terms on June 11, 2004. The president then promulgated that law on June 23, 2004. Currently, the following three bills to implement the law are pending in the LY:

1) a bill to amend the Executive Yuan (EY) organization law to reorganize the EY as outlined in paras 5-9;
2) a bill to amend the Central Government overall staffing law, which proposes to reduce the overall number of government employees from 198,000 to 185,000 over six years (RDEC claims this would be done through attrition and hiring freezes-- not by a reduction in force, but press reports indicate otherwise as they disclose federal employee protests against proposed staffing cuts); and
3) a bill to provide provisional authorization for movement of budgets, assets and staff during the transitional period of implementation of the reorganization (before all of the rules to implement the more detailed restructuring of each individual ministry's are finalized and approved).

20. All of the EY ministries have already drawn up plans for implementing the proposed reorganization. If the LY approves the three reorganization bills, they would be implemented on January 1, 2006.

Optimistic About Prospects

21. (SBU) Yeh was quite optimistic about the chances of these three bills passing this session. He indicated that there is strong bipartisan support for the bills. Yeh believes that all parties are committed to making the reorganization a reality. He said part of his optimism was based on the fact that the KMT Vice President of the LY, P.K. Chiang, has pledged his support for the reorganization. Press reports also indicate that top business leaders are supporting prompt approval of the bill.

Comment: Hurdles Remain

22. (SBU) Yeh's confidence in the smooth passage of the reorganization bills is likely overly optimistic. This reorganization is massive, many details are unclear and serious challenges remain. If the past is any indication, change will not come easily. The last eight Premiers have each tried to phase out Taiwan's Youth Affairs Council, which most Taiwan citizens are not aware exists and most who are familiar with agree serves little useful purpose. Nonetheless, largely due to the Youth Affairs Council employee opposition, no Premier, including Premier Yu, has had success in phasing out this small and rather inconsequential commission.

23. (SBU) Other hurdles also remain. First, with only a few weeks remaining in this LY session, the ruling and opposition parties have yet to work out their differences on their top priority, the 2005 central budget. Furthermore, seemingly less controversial bills such as the bill to increase funding for the financial reconstruction fund have run into a political deadlock. In addition, Premier Yu is also hoping for LY passage of several economic bills and Free Trade Zone legislation. Premier Yu still might decide to hold off on pushing the reorganization bills in favor of some of his other priority bills. Any bills that have not passed a first reading during this LY session will need to be resubmitted from scratch in the next session. Premier Yu is expected to step down before the next LY session. It is not clear the next Premier will take the initiative to resubmit bills not passed this session.